

Conference on "Attracting Investments: Strategies
and Reflections for a Growing Bulgaria"

Confindustria Bulgara

15th of June 2016, Sofia, Bulgaria

Multinationals enterprises (MNEs), the EU regions, and the EU Neighbourhood

Simona Iammarino

London School of Economics

Department of Geography and Environment



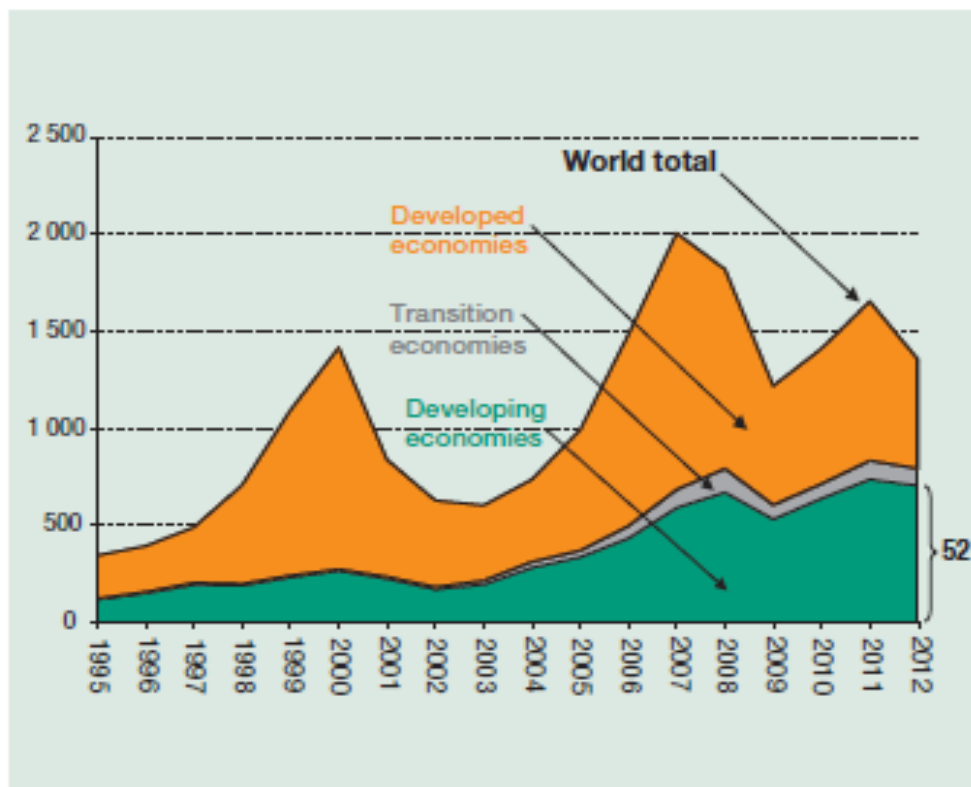
THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Structure of the presentation

- ❖ Some interesting facts...
- ❖ ...MNEs and Geography
- ❖ Two studies, for each:
 - ❖ The (national) geographical context (2003-08)
 - ❖ Research questions
 - ❖ Data and methods (not shown)
 - ❖ Some evidence
 - ❖ Main findings
- ❖ The (sub-national) geography of MNEs and FDI in Europe after the crisis
- ❖ “Regions on the move” in Bulgaria
- ❖ Conclusions and lines for further exploration

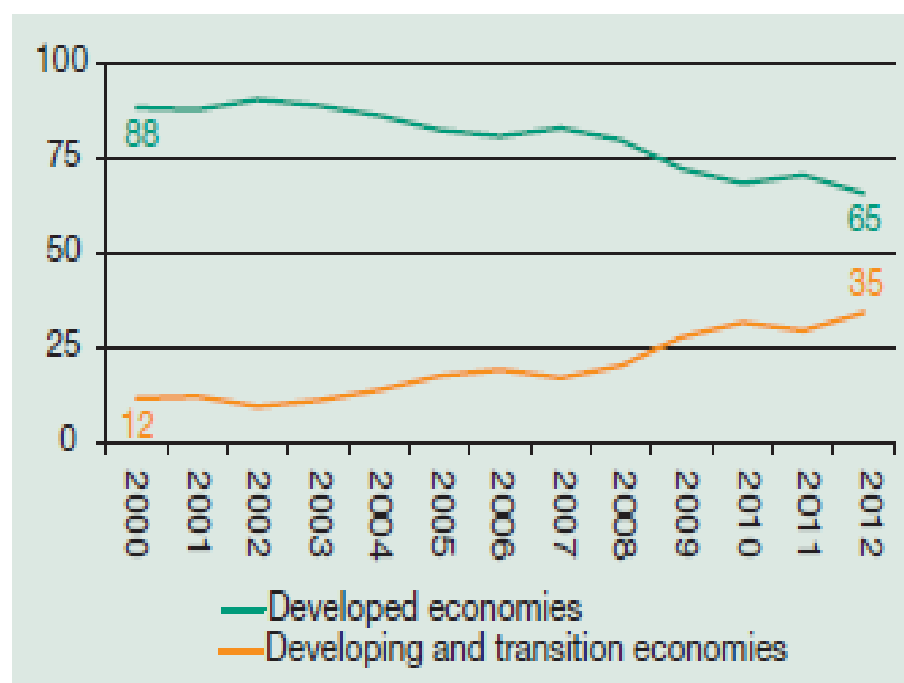
(Fast) changing geography of MNEs...

Figure I.1. FDI inflows, global and by group of economies, 1995–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

Figure I.4. Share of major economic groups in FDI outflows, 2000–2012
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

**...and
different
geographies
for MNE
functions**

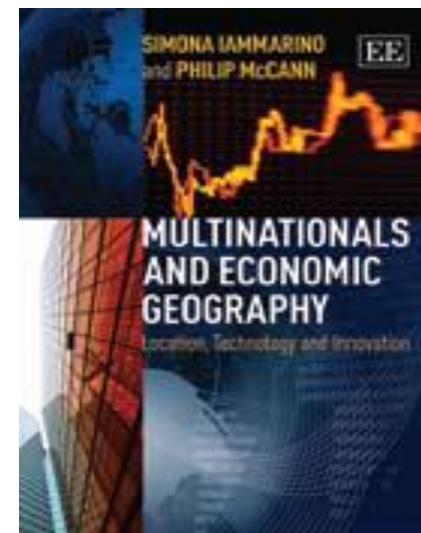
Table 3 - Top 25 emerging countries' cities, 2010. Cities ranked by HQ vs. foreign subsidiaries						
Cities ranked by # of global HQs				Cities ranked by # of large foreign subsidiares		
Rank	City	# of global HQs		Rank	City	# of large foreign subsidiaries
1	Beijing	116		1	Singapore	118
2	Moscow	115		2	Sao Paulo	58
3	Hong Kong	96		3	Mexico City	42
4	Taipei	90		4	Moscow	33
5	Singapore	64		5	Buenos Aires	31
6	Mumbai	57		6	Hong Kong	27
7	Shanghai	54		7	Kuala Lumpur	26
8	Sao Paulo	49		8	Bangkok	23
9	Bangkok	45		9	Prague	22
10	Tel Aviv-Jaffa	43		10	Warsaw	22
11	Mexico City	40		11	Istanbul	21
12	Johannesburg	37		12	Budapest	18
13	Instanbul	36		13	Santiago	17
14	Kuala Lumpur	35		14	Beijing	16
15	Buenos Aires	31		15	Taipei	14
16	Santiago	30		16	Jakarta	13
17	Shenzhen	27		17	Rio de Janeiro	13
18	Delhi	27		18	Bucharest	10
19	Jakarta	25		19	Lima	10
20	Guangzhou	22		20	Bogota	9
21	Hangzhou	22		21	Caracas	8
22	Rio de Janeiro	20		22	Shanghai	7
23	Riyadh	19		23	Manila	7
24	Warsaw	18		24	Johannesburg	6
25	Hanoi	17		25	Curitiba	6

Source: McKinsey Global Institute, 'Urban world: The shifting of the global business landscape', McKinsey&Company, October 2013, Exhibit 6.

MNEs & geography (& innovation!)

Transformations in MNEs faster and deeper than in other firm types (SMEs or large multi-plant uni-national firms): strong interdependence with global (and not only) institutional, organisational and technological change

Such changes were progressively incorporated into a variety of theoretical approaches, but mostly treated along the lines of the *unspecified macro-geography* inherited from the international trade theory



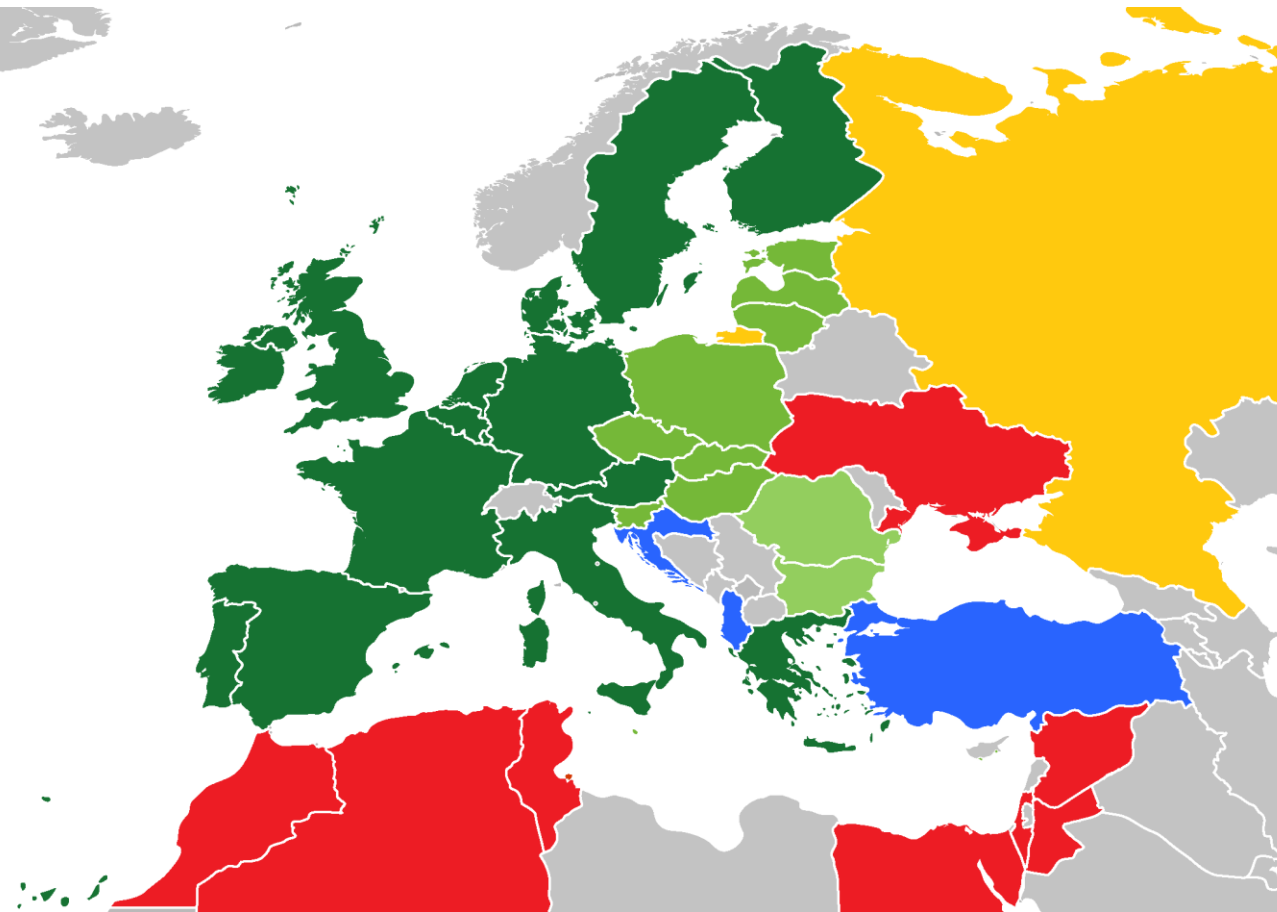
Specific geography increasingly important for MNEs, and in turn MNEs ever more important for *specific* places. Pivot on which this relationship turns: creation, diffusion and management of new knowledge, skills and capabilities

2 studies on *heterogeneity* of EU MNEs

Both with Andrea Ascani and Riccardo Crescenzi:

- Study 1:
 - Economic Institutions and the Location Strategies of European Multinationals in their Geographical Neighbourhood, *Economic Geography*, 2016
- Study 2:
 - What drives Italian multinationals to neighbouring countries? *Environment and Planning C*, 2016

The context of the research



■ EU-15

■ Enlargement 2004

■ Enlargement 2007

■ ENP

■ Accession/Candidate

■ Russian Federation

Study 1

Included:

(a) NMs: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia;
(b) Accession and candidate countries (ACCs): Albania, Croatia (EU member in July 2013) and Turkey;
(c) ENP: Ukraine; Algeria, Egypt, Israel, Jordan, Morocco and Tunisia;
(d) Russian Federation

Excluding ACCs:

- ✓ Montenegro (Dec. 2010)
- ✓ Serbia (March 2012)
- ✓ Macedonia (2005)

and Potential Candidates:

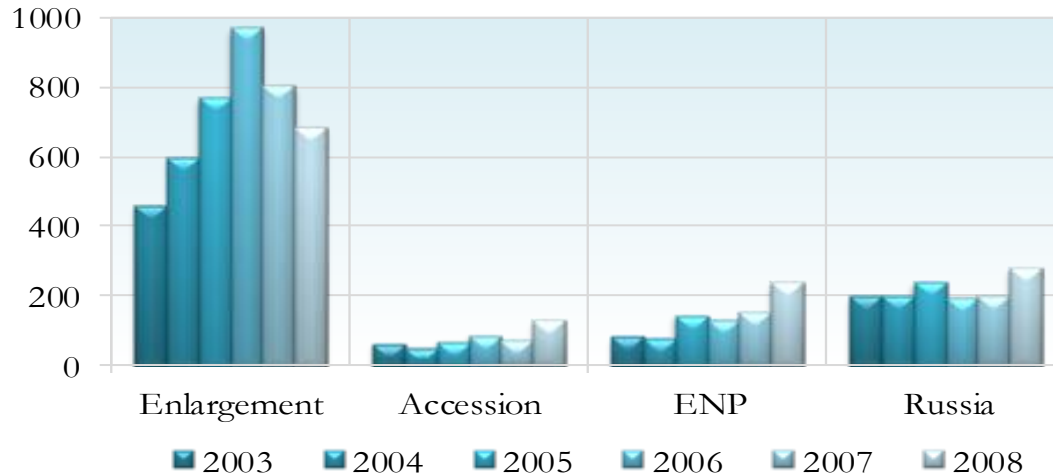
- ✓ Bosnia and Herzegovina
- ✓ Kosovo

Study 2:

Same (a) NMs + Malta;
All (b) ACCs + Bosnia and Herzegovina, Macedonia, Montenegro, Serbia;
Same (c) ENP + Libya, Lebanon, Syria in the South, and Armenia, Azerbaijan, Belarus, Georgia, Moldova in the East; (d) Russian Federation

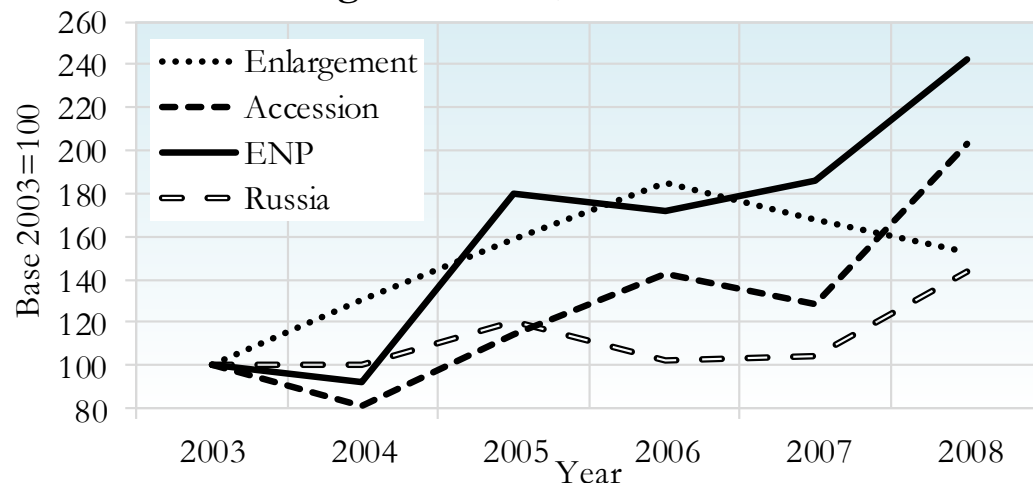
The national geography of EU15 FDI in 2003-08

Number of EU-15 MNEs greenfield investment by group.



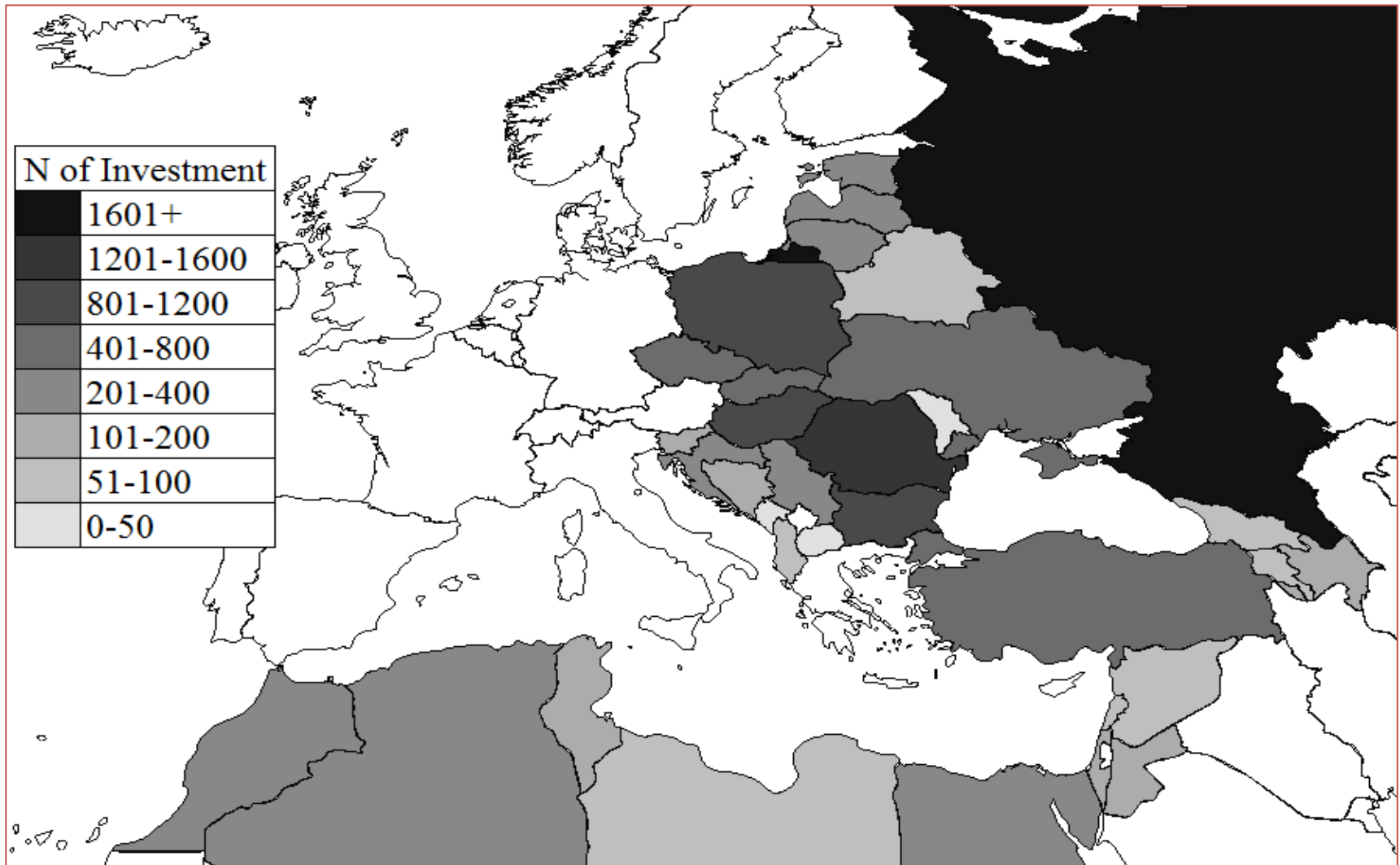
The geography of EU15 MNE operations was strongly uneven in the neighbourhood (see following slide)

Growth of EU-15 MNEs greenfield investment into EU neighbourhood, 2003-2008.



EU15 MNE operations rose in all areas (but declining in the NMs, as predicted by previous enlargements), though at different rates

The national geography of EU15 FDI: 2003-2008



Source: authors' elaboration on FDi-Markets

Study 1: Research questions

- How MNE location behaviour is shaped by recipient countries' economic institutions: (i) regulatory elements: labour market and business regulation; (ii) legal aspects: protection of property rights and contract enforcement; (iii) weight of government in the economy
- Whether there is heterogeneity in the relationship between MNE location behaviour and economic institutions (i.e. whether MNEs have different preferences over different institutional settings)

MNEs heterogeneous preferences for Economic Institutions

	All MNES	Sectoral Heterogeneity				Functional Heterogeneity		
		Manufacturing		Services				
		High-Medium tech	Medium-low tech	Knowledge Intensive	Less Knowledge Intensive	HQ & Inno	SSL	Production
Regulatory settings								
Labour Market Regulation	NO	NO	NO	NO	NO	NO	NO	NO
Business Regulation	+*** s*** (84%)	s*** (63%)	+***	+**	+***	NO	+*** s*** (83%)	+***
Legal Framework								
Property Rights	s*** (50%)	-** s* (33%)	NO	s***(49%)	NO	s*** (49%)	NO	NO
Enforcement of Contracts	+*** s***(98%)	s**(73%)	+***	+**	NO	NO	+** s**(92%)	+***
Weight of the Government								
Share of Public Spending	+**	NO	NO	NO	NO	NO	NO	+***

+/- denotes the sign of the estimated b coefficients in tables 3,4 and 5. Asterisks denote significance as in original tables. Percentages reported in parentheses are %>0 in the preferences distribution. 'NO' stands for 'No significance'

Study 1: Main findings

- Overall, as expected, improving economic institutions is a positive signal by foreign investors
- Significant heterogeneity in MNEs' preferences probably due to unobserved (and unobservable!) factors operating at the firm level
 - Some MNEs may locate where they can establish influential connections with political and economic elites, taking advantage of institutional poorness to circumvent market rules and obtaining rents
 - Less favourable economic institutions, although attractive for some MNEs, might distort market signals and give incentive to MNEs to engage in economically inefficient behaviours: not beneficial for host economies (but for dominant elites!). This risk is obviously higher in developing and transition economies

Study 2: Research questions

1. Explore the location drivers of Italian MNEs in 33 destinations including EU *new* NMs, ACCs and the NCs both Southern and Eastern

However, not only the variety of contextual conditions of the host economies matters...

2. Diversity of the entry modes of foreign firms into the local markets (complex interaction between greenfield investments and joint ventures and acquisitions)

Italian new foreign operations in the EU NMs and NCs (2003-08)

Italy's global outward FDI reached \$535bn in 2012 with \$69.42bn (ca. 13% of total) going to the area of interest, suggesting that the region is extremely relevant to Italian foreign operations (IMF)

Italian	Number of New Investment Projects (2003-2008)*	Italian	Outward Direct Investment Positions (US Dollars, Millions) - 2012**	
Country		%		%
<i>EU New Member States</i>				
Bulgaria	50	9.65	1015.19	1.46
Czech Republic	15	2.9	1986.65	2.86
Estonia	2	0.39	63.69	0.09
Hungary	29	5.6	2683.77	3.87
Latvia	9	1.74	31.22	0.04
Lithuania	2	0.39	0.08	0.00
Malta	1	0.19	693.60	1.00
Poland	41	7.92	15757.23	22.70
Romania	58	11.2	4749.54	6.84
Slovakia	22	4.25	3887.00	5.60
Slovenia	6	1.16	1634.90	2.36
Subtotal	235	45.39	32502.85	46.82
<i>EU Accession and Candidate Countries</i>				
Albania	18	3.47	1491.64	2.15
Bosnia and Herzegovina	11	2.12	231.80	0.33
Croatia	17	3.28	1063.57	1.53
Macedonia	2	0.39	175.83	0.25
Montenegro	4	0.77	239.12	0.34
Serbia	21	4.05	1074.12	1.55
Turkey	23	4.44	6435.62	9.27
Subtotal	96	18.52	10711.70	15.43
<i>ENP Southern Countries</i>				
Algeria	6	1.16	5889.20	8.48
Egypt	10	1.93	5723.42	8.24
Israel	3	0.58	447.40	0.64
Lebanon	5	0.97	56.11	0.08
Libya	5	0.97	278.38	0.40
Morocco	8	1.54	403.55	0.58
Syria	1	0.19	421.96	0.61
Tunisia	17	3.28	997.21	1.44
Subtotal	55	10.62	14217.22	20.48
<i>ENP Eastern Countries</i>				
Armenia	1	0.19	186.77	0.27
Azerbaijan	4	0.77	175.60	0.25
Belarus	1	0.19	48.81	0.07
Georgia	2	0.39	39.20	0.06
Moldova	3	0.58	122.57	0.18
Ukraine	22	4.25	879.26	1.27
Subtotal	33	6.37	1452.21	2.09
Russia	99	19.11	10536.55	15.18
Total	518	100	69420.53	100.00
* Source: FDI Markets data				
**Source: IMF data				

Table 2: Italian new foreign operations in the EU NMs and NCs by business activity, 2003-08.			Table 3: Italian new foreign operations in the EU NMS and NCs by sector, 2003-08.		
Business Activity	n	%	Sector	n	%
CORE BUSINESS FUNCTIONS	251	48.45	MANUFACTURING	352	67.95
Construction	27	5.21	High-Medium Technology	107	20.66
Manufacturing	220	42.47	Automotive Components	12	2.32
Other	4	0.77	Automotive OEM	20	3.86
SUPPORT BUSINESS FUNCTIONS	267	51.54	Consumer Electronics	17	3.28
Distribution and Logistics	28	5.41	Industrial Machinery, Equipment & Tools	20	3.86
Marketing, sales and after sales servicing	167	32.23	Other	38	7.34
Retail	121	23.36	Medium-Low Technology	245	47.3
Sales, Marketing & Support	44	8.49	Building & Construction Materials	16	3.09
Other	2	0.38	Consumer Products	16	3.09
ICT Services	0	0	Food & Tobacco	18	3.47
Administrative and management functions	68	13.12	Textiles	138	26.64
Business Services	67	12.93	Other	57	11.00
Other	1	0.19	SERVICES	137	26.45
Engineering and related technical services	2	0.39	High Knowledge-Intensive	86	16.6
R&D	2	0.39	Financial Services	71	13.71
Total	518	100	Other	15	2.9
			Low Knowledge-Intensive	51	9.85
			Hotels & Tourism	14	2.7
			Real Estate	16	3.09
			Transportation	15	2.9
			Other	6	1.16
			PRIMARY	29	5.6
			Total	518	100

Study 2: Main findings

- Market-seeking motives still predominant drivers of location decisions in NCs together with resource-seeking
- Both private and government-related demand exert a very relevant influence
- Predominantly low-medium tech production investments dominate capital flows between Italy and the area tend to be discouraged by congestion costs
- Quality of the general business environment and the rule of law key facilitating factors for attractiveness
- Case studies highlighted significant sectoral and functional differences across the two firms:
 - Finmeccanica: inter-governmental networks and bilateral international agreements are leveraged to enter local markets and develop the necessary integration with the target economies
 - Saipem: institutional assimilation with local markets is developed by means of special arrangements such as local training initiatives and employment of local workforce ('local content'), and place-specific sustainable activities

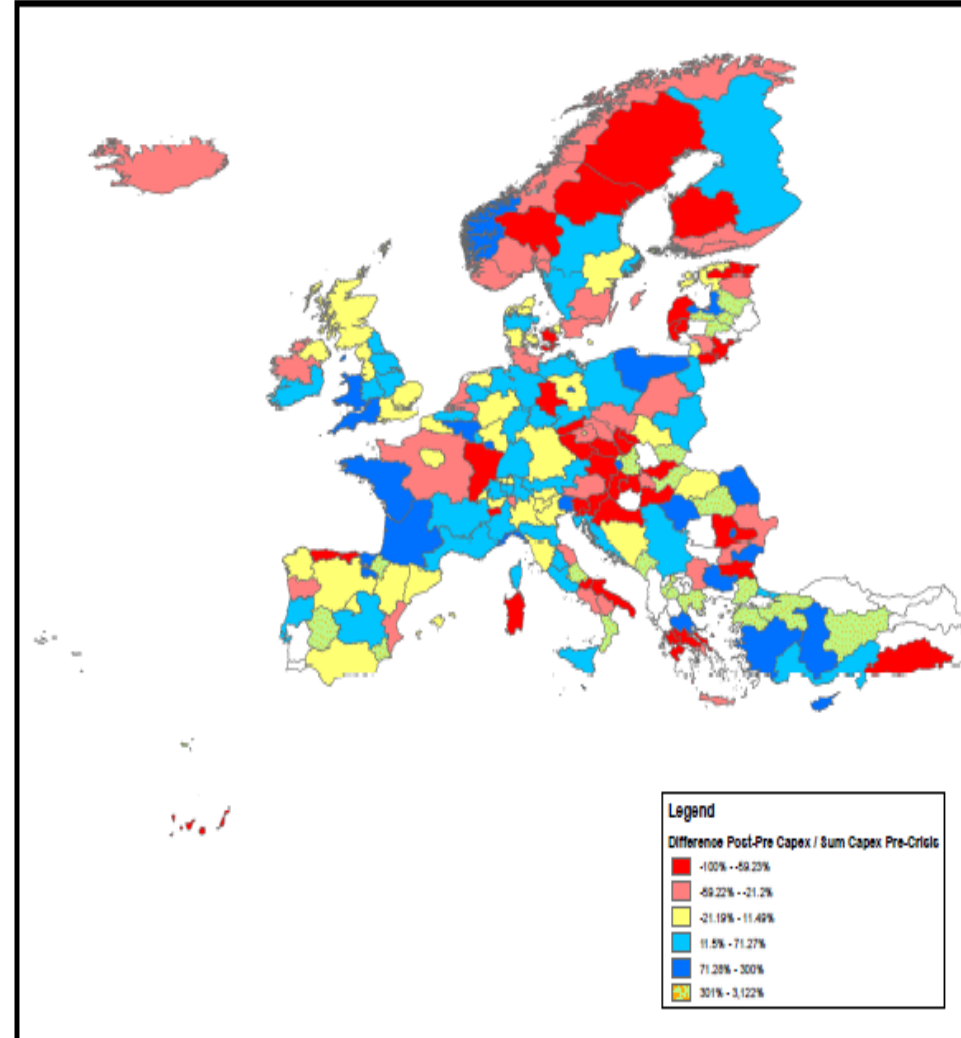
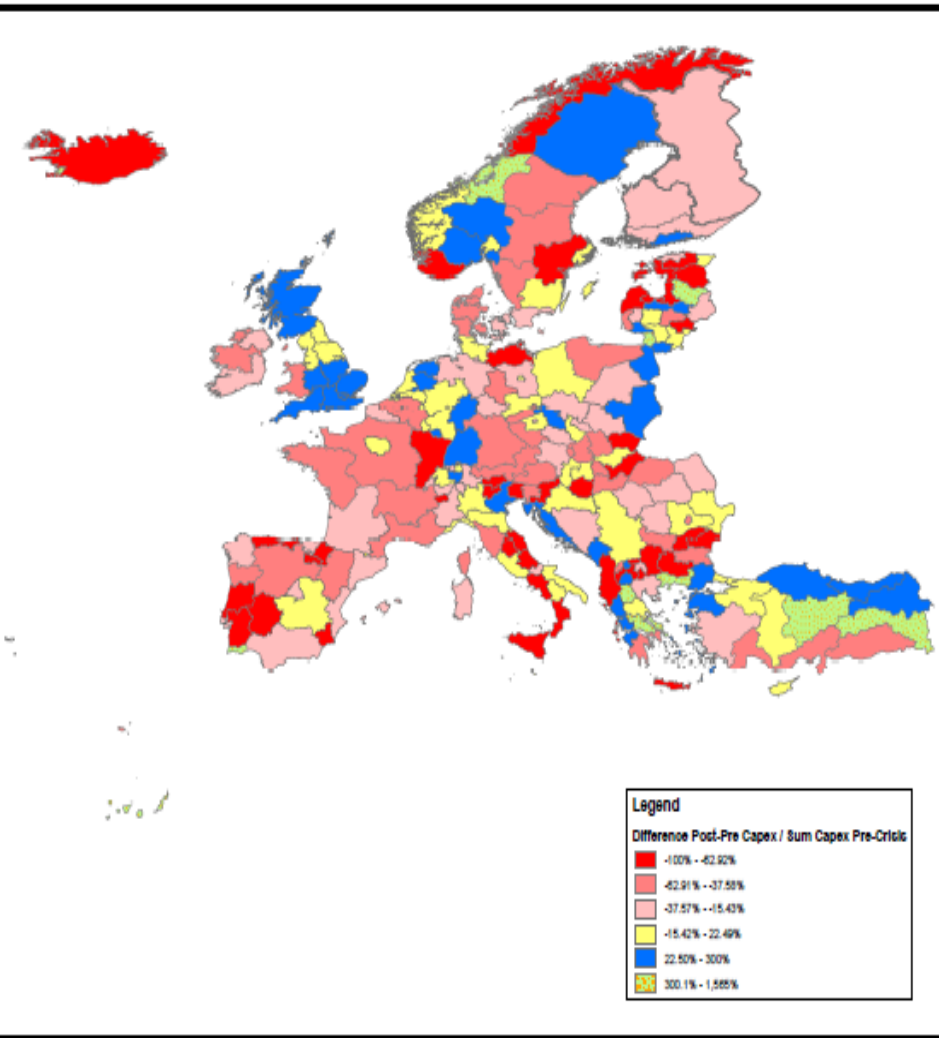
And now?

The (sub-national) geography of MNEs
and FDI in Europe after the crisis

Regions on the Move: FDI towards/from European regions (change in Capital Expenditure between 2003-08 and 2009-14)

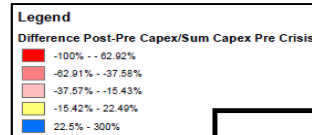
Europe Destination FDI-Capex

Europe Source FDI-Capex

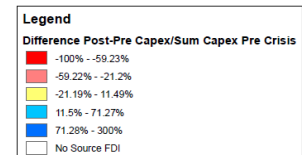
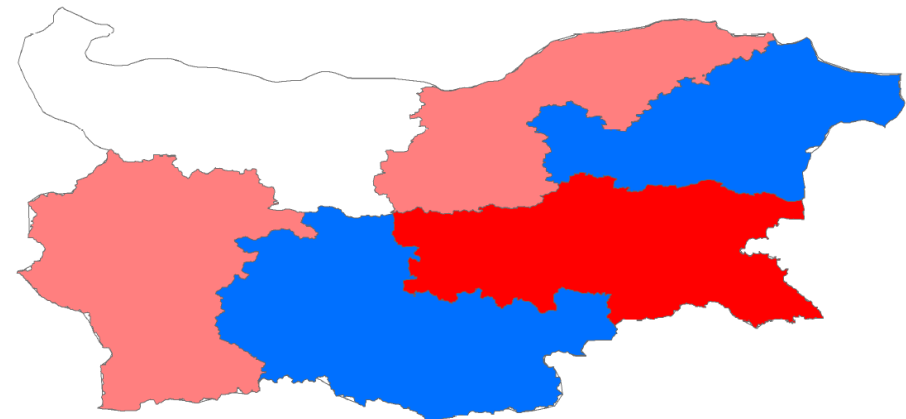


Regions on the Move (cont.): FDI towards/from the Bulgarian Regions (change in Capital Expenditure between 2003-08 and 2009-14)

**Inward FDI from the
World (including intra-EU)**



**Outward FDI to the World
(including intra-EU)**



Spatial polarization on the rise: Bulgarian regions

Capex Bulgaria Destination (Inward FDI from the World, including intra-EU), 2003-14

Regions	NUTS	Total	% by region
Североизточен (Severoiztochen)	BG33	8750.801577	17.8
Югозападен (Yugozapaden)	BG41	17867.07261	36.3
Югоизточен (Yugoiztochen)	BG34	26617.87419	54.1
Южен централен (Yuzhen tsentralen)	BG42	5320.392	10.8
Северозападен (Severozapaden)	BG31	1911.09	3.9
Северен централен (Severen tsentralen)	BG32	7231.482	14.7
Total		49205.77722	100.0

Jobs Bulgaria Destination (Inward FDI from the World, including intra-EU), 2003-14

Regions	NUTS	Total	% by region
Североизточен (Severoiztochen)	BG33	30750	13.0
Югозападен (Yugozapaden)	BG41	122104	51.5
Югоизточен (Yugoiztochen)	BG34	152854	64.4
Южен централен (Yuzhen tsentralen)	BG42	21459	43.6
Северозападен (Severozapaden)	BG31	11520	4.9
Северен централен (Severen tsentralen)	BG32	32979	13.9
Total		237195	100.0

Capex Bulgaria Source (Outward FDI to the World, including intra-EU), 2003-14

Regions	NUTS	Total	% by region
Североизточен (Severoiztochen)	BG33	269	14.9
Югозападен (Yugozapaden)	BG41	1286.07	71.4
Югоизточен (Yugoiztochen)	BG34	23	1.3
Южен централен (Yuzhen tsentralen)	BG42	29.4	1.6
Северозападен (Severozapaden)	BG31	0	0.0
Северен централен (Severen tsentralen)	BG32	194.23	10.8
Total		1801.7	100

Implications of change for theoretical & empirical research

(Iammarino & McCann, 2013, 2015, 2016)

- ***Geographical origin of MNEs*** much less explained by the national level
- ***Geographical destination of MNEs*** progressively less dependent on purely cost-based and relative endowment factors (particularly in the EU)
- Host ('lending' origin) versus home ('borrowing' destination) even more blurred when looking at the ***economic impact of MNEs***
- ***Sectoral versus functional specialisation:*** crucial structural features of the relationship between MNEs and places
- Conflicting results on MNEs' impact may stem from unobserved ***firm heterogeneity*** (not only MNE characteristics, but also domestic firms' features)
- ***Heterogeneity of places*** increasingly important for MNEs, both foreign- and locally-owned, in advanced as well as in emerging/developing locations

Conclusions and open questions

- *Increasing geographical inequality*: negative impact more severe in regions/local systems with relatively obsolete/less innovative/declining/close industry structures and skills' shortage or mismatch
- *MNE networks for regional diversification, restructuring and upgrading*: do MNEs help diversification? Where? What kind of diversification (i.e. brand new, integration between existing local and global activities, related variety)?
- *More research-based evidence* needed to inform policy intervention on how to exploit the 'global' to spur innovation and renew skills in the 'local' (particularly in the periphery)
- *New approach to policy needed* aiming at spreading out more evenly the potential overall gains accrued at the national level. Which policies and at what level? Top-down, bottom-up, both?



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Thank you for your attention!
s.iammarino@lse.ac.uk